

ALVORD AND ALVORD
ATTORNEYS AT LAW
1050 SEVENTEENTH STREET, N.W.

SUITE 301
WASHINGTON, D.C.

20036

(202) 393-2266

FAX (202) 393-2156

E-MAIL alvordlaw@aol.com

MAR 22 '06 3-14 PM

SURFACE TRANSPORTATION BOARD

ELIAS C. ALVORD (1942)
ELLSWORTH C. ALVORD (1964)

OF COUNSEL
URBAN A. LESTER

March 22, 2006

Mr. Vernon A. Williams
Secretary
Surface Transportation Board
Washington, D.C. 20423

Dear Mr. Williams:

Enclosed for recordation pursuant to the provisions of 49 U.S.C. Section 11301(a) are two (2) copies of a Security Agreement, dated as of March 3, 2006, a primary document as defined in the Board's Rules for the Recordation of Documents.

The names and addresses of the parties to the enclosed document are:

Secured Party: Region 9 Economic Development District of
Southwest Colorado, Inc.
295A Girard Street
Durango, Colorado 81303

Debtor: The Durango & Silverton Narrow Gauge
Railroad Company
2445 Hollywood Boulevard
Hollywood, Florida 33020

Mr. Vernon A. Williams
March 22, 2006
Page 2

A description of the railroad equipment covered by the enclosed document
is:

2 locomotives: Durango & Silverton road numbers 11 and 18.

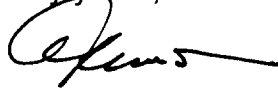
A short summary of the document to appear in the index is:

Security Agreement.

Also enclosed is a check in the amount of \$33.00 payable to the order of
the Surface Transportation Board covering the required recordation fee.

Kindly return stamped copies of the enclosed document to the
undersigned.

Very truly yours,



Robert W. Alvord

RWA/anm
Enclosures

MAR 22 '06 3-14 PM

SECURITY AGREEMENT

THIS SECURITY AGREEMENT ("Security Agreement") is made March 3, 2006 between ^{SURFACE TRANSPORTATION BOARD} Durango & Silverton Narrow Gauge Railroad Company, a Colorado Corporation ("Debtor") and Region 9 Economic Development District of Southwest Colorado, Inc., a Colorado corporation ("Secured Party").

This Security Agreement is entered into with respect to:

- (i) a loan (the "Loan") to be made by Secured Party to Debtor pursuant to a Loan Agreement (the "Loan Agreement") dated the same date as this Security Agreement;

Secured Party and Debtor agree as follows:

1. Definitions.

- 1.1 "Collateral." The Collateral shall consist of all of the personal property of Debtor, wherever located, and now owned or hereafter acquired, including:
 - (i) 90 TON 36" GA. GE LOCOMOTIVE #11
 - (ii) 90 TON 36" GA. GE LOCOMOTIVE #18
 - (iii) [To the extent not listed above as original collateral, proceeds and products of the foregoing].
- 1.2 "Obligations." This Security Agreement secures the following:
 - (i) Debtor's obligations under the Loan, the Loan Agreement, and this Security Agreement;
 - (ii) All of Debtor's other present and future obligations to Secured Party;
 - (iii) The repayment of (a) any amounts that Secured Party may advance or spend for the maintenance or preservation of the Collateral and (b) any other expenditures that Secured Party may make under the provisions of this Security Agreement or for the benefit of Debtor;
 - (iv) All amounts owed under any modifications, renewals or extensions of any of the foregoing obligations;
 - (v) All other amounts now or in the future owned by Debtor to Secured Party; and
 - (vi) Any of the foregoing that arises after the filing of a petition by or against Debtor under the Bankruptcy Code, even if the obligations do not accrue because of the automatic stay under Bankruptcy Code § or otherwise.

- 1.3. *UCC.* Any term used in the Uniform Commercial Code ("UCC") and not defined in this Security Agreement has the meaning given to the term in the UCC.

2. Grant of Security Interest.

Debtor grants a security interest in the Collateral to Secured Party to secure the payment or performance of the Obligations.

3. Performance of Security Interests.

3.1 Filing of Financing Statement.

- (i) Debtor authorizes Secured Party to file a financing statement (the "Financing Statement") describing the Collateral.
- (ii) Debtor authorizes Secured Party to file a financing statement (the "Financing Statement") describing any agricultural liens or other statutory liens held by Secured Party.
- (iii) Secured Party shall receive prior to the Closing an official report from the Secretary of State of each Collateral State, Chief Executive Office State, and the Debtor State (each as defined below) (the "SOS Reports") indicating that Secured Party's security interest is prior to all other security interests reflected in the report.

3.2. Possession.

- (i) Debtor shall have possession of the Collateral, except where expressly otherwise provided in this Security Agreement or where Secured Party chooses to perfect its security interest by possession in addition to the filing of a financing statement.
- (ii) Where Collateral is in the possession of a third party, Debtor will join with Secured Party in notifying the third party of Secured Party's security interest and obtaining an acknowledgment from the third party that it is holding the Collateral for the benefit of Secured Party.

3.3. Control. Debtor will cooperate with Secured Party in obtaining control with respect to Collateral consisting of:

- (i) Deposit Accounts; and
- (ii) Investment Property;
- (iii) Letter-of-credit rights; and
- (iv) Electronic chattel paper.

3.4 *Marking of Chattel Paper.* Debtor will not create any Chattel Paper without placing a legend on the Chattel Paper acceptable to Secured Party indicating that Secured Party has a security interest in the Chattel Paper.

4. Post-Closing Covenants and Rights Concerning the Collateral.

4.1 *Inspection.* The parties to this Security Agreement may inspect any Collateral in the other party's possession, at any time upon reasonable notice.

4.2 *Personal Property.* The Collateral shall remain personal property at all times. Debtor shall not affix any of the Collateral to any real property in any manner which would change its nature from that of personal property to real property or to a fixture.

4.3 *Secured Party's Collection Rights.* Secured Party shall have the right at any time to enforce Debtor's rights against the account debtors and obligors.

4.4 *Limitations on Obligations Concerning Maintenance of Collateral.*

(i) *Risk of Loss.* Debtor has the risk of loss of the Collateral.

(ii) *No Collection Obligation.* Secured Party has no duty to collect any income accruing on the Collateral or to preserve any rights relating to the Collateral.

4.5 *No Disposition of Collateral.* Secured Party does not authorize, and Debtor agrees not to:

(i) make any sales or leases of any of the Collateral;

(ii) license any of the Collateral; or

(iii) grant any other security interest in any of the Collateral.

4.6 *Purchase Money Security Interests.* To the extent Debtor uses the Loan to purchase Collateral, Debtor's repayment of the Loan shall apply on a "first-in-first-out" basis so that the portion of the Loan used to purchase a particular item of Collateral shall be paid in the chronological order the Debtor purchased the Collateral.

5. Debtor's Representations and Warranties.

Debtor warrants and represents that:

5.1 *Title to and Transfer of Collateral.* It has rights in or the power to transfer the Collateral

and its title to the Collateral is free of all adverse claims, liens, security interests and restrictions on transfer or pledge except as created by this Security Agreement.

5.2 *Location of Collateral.* All Collateral consisting of goods is located solely in the State of Colorado (the "Collateral States").

5.3 *Location, State of Incorporation, and Name of Debtor.* Debtor's:

- (i) chief executive office is located in the State of Colorado (the "Chief Executive Office State");
- (ii) state of incorporation is the State of Colorado (the "Debtor State"); and
- (iii) exact legal name is as set forth in the first paragraph of this Security Agreement.

6. Debtor's Covenants.

Until the Obligations are paid in full, Debtor agrees that it will:

- 6.1 preserve its corporate existence and not, in one transaction or a series of related transactions, merge into or consolidate with any other entity, or sell all or substantially all of its assets;
- 6.2 not change the state of its incorporation; and
- 6.3 not change its corporate name without providing Secured Party with 30 days' prior written notice.

7. Events of Default.

The occurrence of any of the following shall, at the option of Secured Party, be an Event of Default:

- 7.1 Any default or Event of Default (as defined) by Debtor under the Loan Agreement or any of the other Obligations;
- 7.2 Debtor's failure to comply with any of the provisions of, or the incorrectness of any representation or warranty contained in, this
- 7.3 Security agreement, the Note, or in any of the other Obligations.
- 7.4 Transfer or disposition of any of the Collateral, except as expressly permitted by this Security Agreement;
- 7.5 Attachment, execution or levy on any of the Collateral;
- 7.6 Debtor voluntarily or involuntarily becoming subject to any proceeding under (a) the Bankruptcy Code or (b) any similar remedy under state statutory or common law;

7.7 Debtor shall fail to comply with, or become subject to any administrative or judicial proceeding under any federal, state or local (a) hazardous waste or environmental law, (b) asset forfeiture or similar law which can result in the forfeiture of property, or (c) other law, where noncompliance may have any significant effect on the Collateral; or

7.8 Secured Party shall receive at any time following the Closing an SOS Report indicating that Secured Party's security interest is not prior to all other security interests or other interests reflected in the report.

8. Default Costs.

8.1 Should an Event of Default occur, Debtor will pay to Secured Party all costs reasonably incurred by the Secured Party for the purpose of enforcing its rights hereunder, including;

- (i) costs of foreclosure;
- (ii) costs of obtaining money damages; and
- (iii) a reasonable fee for the services of attorneys employed by Secured Party for any purpose related to this Security Agreement or the Obligations, including consultation, drafting documents, sending notices or instituting, prosecuting or defending litigation or arbitration.

9. Remedies Upon Default.

9.1 *General.* Upon any Event of Default, Secured Party may pursue any remedy available at law (including those available under the provisions of the UCC) or in equity to collect, enforce or satisfy any Obligations then owing, whether by acceleration or otherwise.

9.2 *Conformer Remedies.* Upon any Event of Default, Secured Party shall have the right to pursue any of the following remedies separately, successively or simultaneously:

- (i) File suit and obtain judgment and, in conjunction with any action, Secured Party may seek any ancillary remedies provided by law, including levy of attachment and garnishment.
- (ii) Take possession of any Collateral if not already in its possession without demand and without legal process. Upon Secured Party's demand, Debtor will assemble and make the Collateral available to Secured Party as they direct. Debtor grants to Secured Party the right, for this purpose, to enter into or on any premises where Collateral may be located.
- (iii) Without taking possession, sell, lease or otherwise dispose of the Collateral at public or private sale in accordance with the UCC.

10. Foreclosure Procedures.

- 10.1 *No Waiver.* No delay or omission by Secured Party to exercise any right or remedy accruing upon any Event of Default shall: (a) impair any right or remedy, (b) waive any default or operated as an acquiescence to the Event of Default, or (c) affect any subsequent default of the same or of a different nature.
- 10.2 *Notices.* Secured Party shall give Debtor such notice of any private or public sale as may be required by the UCC.
- 10.3 *Condition of Collateral.* Secured Party has no obligation to clean-up or otherwise prepare the Collateral for sale.
- 10.4 *No Obligation to Pursue Others.* Secured Party has no obligation to attempt to satisfy the Obligations by collecting them from any other person liable for them and Secured Party may release, modify or waive any collateral provided by any other person to secure any of the Obligations, all without affecting Secured Party's rights against Debtor. Debtor waives any right it may have to require Secured Party to pursue any third person for any of the Obligations.
- 10.5 *Compliance With Other Laws.* Secured Party may comply with any applicable state or federal law requirements in connection with a disposition of the Collateral and compliance will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral.
- 10.6 *Warranties.* Secured Party may sell the Collateral without giving any warranties as to the Collateral. Secured Party may specifically disclaim any warranties of title or the like. This procedure will not be considered adversely to affect the commercial reasonableness of any sale of the Collateral.
- 10.7 *Sales on Credit.* If Secured Party sells any of the Collateral upon credit, Debtor will be credited only with payments actually made by the purchaser, received by Secured Party and applied to the indebtedness of the purchaser. In the event the purchaser fails to pay for the Collateral, Secured Party may resell the Collateral and Debtor shall be credited with the proceeds of the sale.
- 10.8 *Purchases by Secured Party.* In the event Secured Party purchases any of the Collateral being sold, Secured Party may pay for the Collateral by crediting some or all of the Obligations of the Debtor.
- 10.9 *No Marshaling.* Secured Party has no obligation to marshal any assets in favor of Debtor, or against or in payment of:
- (i) the Note,
 - (ii) any of the other Obligations, or
 - (iii) any other obligation owed to Secured Party by Debtor or any other person.

11. Miscellaneous.

11.1 Assignment.

- (i) *Binds Assignees.* This Security Agreement shall bind and shall inure to the benefit of the heirs, legatees, executors, administrators, successors and assigns of Secured Party and shall bind all persons who become bound as a debtor to this Security Agreement.
- (ii) *No Assignments by Debtor.* Secured Party does not consent to any assignment by Debtor except as expressly provided in this Security Agreement.
- (iii) *Secured Party Assignments.* Secured Party may assign its rights and interests under this Security Agreement. If an assignment is made, Debtor shall render performance under this Security Agreement to the assignee. Debtor waives and will not assert against any assignee any claims, defenses or set-offs which Debtor could assert against Secured Party except defenses which cannot be waived.

11.2 *Severability.* Should any provision of this Security Agreement be found to be void, invalid or unenforceable by a court or panel of arbitrators of competent jurisdiction, that finding shall only affect the provisions found to be void, invalid or unenforceable and shall not affect the remaining provisions of this Security Agreement.

11.3 *Notices.* Any notices required by this Security Agreement shall be deemed to be delivered when a record has been (a) deposited in any United States postal box if postage is prepaid, and the notice properly addressed to the intended recipient, (b) received by telecopy, (c) received through the Internet, and (d) when personally delivered.

11.4 *Headings.* Section headings used in this Security Agreement are for convenience only. They are not a part of this Security Agreement and shall not be used in construing it.

11.5 *Governing Law.* This Security Agreement is being executed and delivered and is intended to be performed in the State of Colorado and shall be construed and enforced in accordance with the laws of the State of Colorado, except to the extent that the UCC provides for the application of the law of the Debtor State.

11.6 Rules of Construction.

- (i) No reference to "Proceeds" in this Security Agreement authorizes any sale, transfer, or other disposition of the Collateral by the Debtor.
- (ii) "Includes" and "including" are not limiting.
- (iii) "Or" is not exclusive.

(iv) "All" includes "any" and "any" includes "all".

11.7 *Integration and Modifications.*

- (i) This Security Agreement is the entire agreement of the Debtor and Secured Party concerning its subject matter.
- (ii) Any modifications to this Security Agreement must be made in writing and signed by the party adversely affected.

11.8 *Waiver.* Any party to this Security Agreement may waive the enforcement of any provision to the extent the provision is for its benefit.

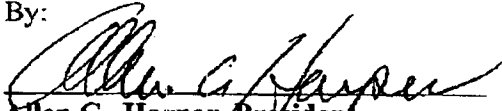
11.9 *Further Assurances.* Debtor agrees to execute any further documents, and to take any further actions, reasonably requested by Secured Party, to evidence or perfect the security interest granted herein or to effectuate the rights granted to Secured Party herein.

The parties have signed this Security Agreement as of the day and year first above written at Durango, Colorado.

"DEBTOR"

Durango & Silverton Narrow Gauge Railroad Company

By:


Allen C. Harper, President

Date

03/03/06

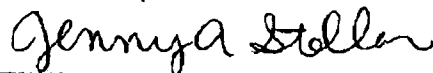
Region 9 Economic Development District of Southwest Colorado, Inc., a Colorado corporation

By:


Ed Morlan, Executive Director

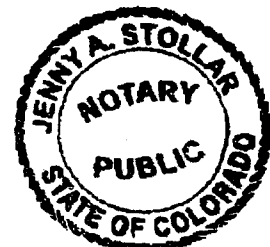
The foregoing instrument was acknowledged before me this 3rd day of March, 2006 by Allen C. Harper - President, Durango and Silverton Narrow Gauge Railroad Company and Ed Morlan, Executive Director, Region 9 Economic Development District of Southwest Colorado.

Witness my hand and official seal



Notary Public

my commission expires 11/4/09



CERTIFICATION

I, Robert W. Alvord, attorney licensed to practice in the State of New York and the District of Columbia, do hereby certify under penalty of perjury that I have compared the attached copy with the original thereof and have found the copy to be complete and identical in all respects to the original document.

Dated: _____

3/22/06



Robert W. Alvord